BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEBRASKA

IN THE MATTER OF THE APPLICATION OF SOURCEGAS DISTRIBUTION LLC, GOLDEN, COLORADO, SEEKING AN ORDER AUTHORIZING IT TO PUT INTO EFFECT A SYSTEM SAFETY AND INTEGRITY RIDER TARIFF AND A SYSTEM SAFETY AND INTEGRITY RIDER CHARGE	))))))	DOCKET NO. NG-0078

POST-HEARING BRIEF OF
SOURCEGAS DISTRIBUTION LLC

I. EXECUTIVE SUMMARY

SourceGas Distribution LLC ("SourceGas Distribution" or the "Company") respectfully requests that the Nebraska Public Service Commission (the "Commission"), through the power, authority and jurisdiction granted to it by Section 66-1808 of the State Natural Gas Regulation Act (the "Act"), issue an order authorizing the Company to put into effect as of November 1, 2014, the System Safety and Integrity Rider ("SSIR") Tariff set forth in Exhibit JSH-6 to the Prefiled Rebuttal Testimony of Jerrad S. Hammer (Ex. 23) and the SSIR Charges set forth in Mr. Hammer's Exhibit JSH-8 (Ex. 92) that reflect Commission approval of the depreciation rates set forth in Exhibit 90 and the associated relief requested by the Company in Docket No. NG-0079.

The Commission should grant the requested relief for the following reasons:

1. It has the authority granted to it by Section 66-1808 of the Act to do so;

2. The SSIR Tariff is appropriate from a policy perspective, because it better aligns all stakeholders' interests to assure the continued safety and integrity of the Company's aging infrastructure by balancing the Company's need for prompt cost recovery of SSIR Projects with a transparent regulatory process over SSIR Projects and a true-up mechanism to protect customers;

3. The SSIR Tariff addresses the core shortcomings inherent in the Infrastructure System Replacement ("ISR") cost recovery process set forth in Sections 66-1865 and 66-1866 of the Act;

4. The SSIR Tariff includes provisions recommended by the Public Advocate;

5. Customers will benefit if the Commission approves the relief requested by the Company in this proceeding and in Docket Nos. NG-0072.1 and NG-0079, because such approval will not cause the Company to exceed its authorized rate

of return and will reduce the Company's current revenue deficiency to a level that will allow the Company to extend the time period between rate cases, implement gradual SSIR rate changes over time, and avoid a general rate case for several years;

6. The Public Advocate exaggerates the impact of rescheduled 2014 SSIR Projects; and

7. Public Advocate witness William Dunkel's testimony should be disregarded because he testified he had no recommendation in this proceeding.

Based on questions from Commissioners during the hearing, this Post-Hearing Brief also addresses customer bill messaging of the SSIR Charge (to be called the "Safety and Integrity Charge" on customer bills).

II. ARGUMENT

1. The Commission Has the Authority Under Section 66-1808 of the Act to Grant the Requested Relief

The Commission has the authority under Section 66-1808 of the Act to grant the relief requested by the Company. Sections 66-1808(1) and (2) of the Act authorize jurisdictional utilities to "make effective any changed rate or any term or condition of service pertaining to the service or rates of such utility" outside of general rate filings. The Commission has recognized that Section 66-1808 of the Act "sets forth procedures for rate changes that are not general rate filings" and provides the Commission "with the jurisdiction to consider alternate mechanisms for processing rate changes that do not rise to the level of a general rate filing."[1]

The Commission has stated that jurisdictional utilities "are encouraged to continue to present rate proposals that minimize regulatory costs and increase efficiency."[2] The evidence demonstrates that the SSIR Tariff and Charge minimize regulatory costs compared with a general rate filing. (Ex. 19, 11:7-13, 21-25). The streamlined procedures set forth in the SSIR Tariff also increase efficiency compared with a general rate filing.

For these reasons, the Commission has the authority to approve the SSIR Tariff and Charges pursuant to its authority under Section 66-1808 of the Act.

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1 Order, Docket No. NG-0031, at page 2 (November 1, 2005).

2 *Id.* at page 3.

2. Policy Reasons Support Commission Approval of the SSIR Tariff

The policy reasons supporting Commission approval of the SSIR Tariff are provided from an operational perspective in Exhibit 24 and from a rate making and regulatory perspective on pages 9-20 of Exhibit 16 and pages 25-39 of Exhibit 19.

From an operational perspective, the SSIR Tariff answers the federal directives of the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration and ongoing public concern that have led to a fundamental change of direction in the regulation of the natural gas industry requiring the industry to incur increased costs that are more difficult to plan for and predict. Based upon the scope of present legislative mandates and regulatory initiatives, and other signals from regulators, the current flurry of regulatory activity appears to be just the tip of the iceberg, and approval of the SSIR Tariff will allow the Company to avoid the impact of regulatory unfunded mandates. It may take several years before the natural gas industry can extrapolate if and when this fundamental change of direction may settle into a more predictable routine. This fundamental change in direction places greater burdens on pipeline operators such as SourceGas Distribution to implement the requirements of ever-changing federal regulations, and warrants that the costs of compliance be recovered on a concurrent basis as the costs are incurred. As Company witness Charles Bayles explained at the hearing, the federal government has "urged" states "to work with utility companies to achieve cost recovery on these new initiatives." (Tr. 181:15-18; *see* Tr. 182:10-13).

From a rate making and regulatory perspective, the SSIR Tariff better aligns all regulatory stakeholders' interests to assure the continued safety and integrity of the Company's aging infrastructure by balancing the Company's need for prompt cost recovery of SSIR Projects with a regulatory process that provides greater transparency into the Company's system safety and integrity projects. As discussed in Section II.3 of this Post-Hearing Brief, the ISR cost recovery process achieves neither of these important objectives. In the context of a rate making and regulatory perspective, the concepts of "efficiency" and "cost control" raised by the Public Advocate (Ex. 77, 42:21-22) are important and are properly addressed through the reporting, auditing and reconciliation processes in the SSIR Tariff. For example, if a particular SSIR Project generates quantifiable operations and maintenance ("O&M") cost savings, those savings would be reflected as a credit to the Eligible System Safety and Integrity Costs used to compute the SSIR Charges. (Tr. 118:6-119:3).

Through these two perspectives, the SSIR Tariff is an appropriate mechanism for the Company to prudently invest in the safety and integrity of its Nebraska pipeline system and to timely address, through a systematic and programmatic approach, aging infrastructure, the risks of top-of-ground pipeline, bare steel pipeline, and other pipeline conditions being targeted by government mandates.[3] (Tr. 27:17-22, 140:8–141:18, 171:2-172:10). To that point, although the federal government's "IVP" (integrity verification process) may not yet be a final rule (Tr. 22:21–23:7), the SSIR Tariff addresses current and other pending federal safety and integrity rules (Tr. 174:5–176:9) and "the bulk of the projects in [the Company's] filing are for top-of-ground replacement and for bare steel replacement." (Tr. 70:21-24). Also, it is prudent for the Company to proactively address pending federal safety and integrity rules now because utilities cannot at the "flip of a switch" take all of the actions necessary to comply with newly final rules. (Tr. 142:16–143:18).

3. <u>The SSIR Tariff Addresses the Core Shortcomings of the ISR Cost Recovery Process</u>

Because of the broad authority granted it under Section 66-1808 of the Act, the Commission has the ability to address the core shortcomings of the current ISR cost recovery process by approving the SSIR Tariff. The evidence in this proceeding shows the core shortcomings of the ISR cost recovery process, namely: (i) the substantial regulatory lag of up to one and one-half years between the time the Company incurs an eligible ISR cost and the

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[3] The ISR cost recovery process may work for Black Hills Energy, but SourceGas Distribution and Black Hills Energy are very different utilities. (Tr. 59:3-10, 14-19). For example, SourceGas Distribution serves a widely-dispersed customer base in the western two-thirds of the State, while Black Hills Energy is centered on the City of Lincoln and the area surrounding the City of Omaha. (Tr. 59:5-6, 14-15).

time the Company can start recovering that cost after Commission approval, (ii) the bill and revenues caps on the recovery of ISR costs, (iii) the absence of an ISR provision to recover O&M expenses incurred to maintain the safety and integrity of the Company's pipeline system, and (iv) the reactive approach of the ISR process to system safety and integrity. (*See*, *e.g.*, Ex. 16, pp. 13-19). As summarized below, the SSIR Tariff addresses each of these core shortcomings of the ISR cost recovery process and the Company's evidence rebuts the Public Advocate's defense of these shortcomings (*See*, *e.g.*, Ex. 19, pp. 25-39).

i. <u>The SSIR Tariff Reduces the Regulatory Lag of the ISR through Concurrent Cost Recovery</u>

To address the first core shortcoming of the ISR cost recovery process, the SSIR Tariff provides as close to concurrent cost recovery as possible without overburdening the administrative process or creating customer confusion. The limited extent to which the Company may recover costs under the SSIR Tariff before it incurs those costs is not much different from the Company's authority to recover interim rates under Section 66-1838(10)(a) of the Act (Tr. 66:9-12) or to recover ownership costs and earn a return on plant being constructed under Section 66-1817 of the Act (Tr. 77:22–78:3). Moreover, the SSIR Tariff contains a reconciliation process, including a symmetrical interest bearing component, to ensure that customers are charged the actual costs of the in-service Projects for the actual time period for which they were in service.

Importantly, the SSIR Tariff is structured so that the SSIR Charges only include the monthly revenue requirement generated from a Project once it is in service and not automatically a full year revenue requirement for the Project. (Ex. 19, 28:1-11; Tr. 31:4-8, 34:4-11, 116:20-22). The monthly revenue requirement calculation in the SSIR Tariff, in contrast to the ISR cost calculation, also captures over time each Project's growing accumulated depreciation and accumulated deferred income taxes, which reduces the return on the plant recovered through the SSIR Charges. (Tr. 113:21–114:21, 121:21–122:6, 127:3-128:15). Both of these aspects are "factored in up front to the calculation" of the SSIR Charges and not "on the backside of it when there's a true-up" (Tr. 126:5-24), so customers immediately receive the benefit of these aspects of the SSIR Tariff rather than having to wait until the reconciliation process (Tr. 128:3-15). In other words, the SSIR Tariff produces "more of a real time revenue requirement" so that "[t]he revenue requirement reflected in any year would equal exactly the revenue requirement needed for the time that the plant was in service and used and useful" and "customers are paying precisely what is needed." (Tr. 31:4-8, 122:7-9).

Furthermore, the Company's annual November 1 filings addressing the next calendar year's SSIR Projects also will <u>actualize</u> the ongoing revenue requirement of Projects that already are being recovered in the SSIR Charges. (Tr. 69:11-15, 124:13–125:4). Actualizing the ongoing revenue requirement of Projects, along with the annual reconciliation process in the SSIR Tariff, will ensure that "the customer only pays exactly what the projects cost." (Tr. 125:12-13).

ii. <u>The SSIR Tariff Eliminates the ISR's Bill and Revenue Caps but Retains the ISR's Requirement of a General Rate Case Every 60 Months</u>

The SSIR Tariff eliminates the second core shortcoming of the ISR cost recovery process by not including a bill cap or a revenue cap on the recovery of Eligible System Safety and Integrity Costs of SSIR Projects. All Projects are important to assure pipeline system safety and integrity. The timely recovery of SSIR Project costs supports the continued improvement of the safety and integrity of the Company's jurisdictional gas system. Also, the Company will avoid having its earned return eroded by the delayed recovery of those costs, as can happen under the ISR cost recovery process. The Company likely would bump up against the revenue and bill caps under the ISR cost recovery process before the end of the 60-month period since the Commission issued its May 2012 order in the Company's last general rate case in Docket No. NG-0067. That likelihood would only increase under the SSIR Tariff, after correcting for the ISR's core shortcoming that denies recovery of O&M expenses incurred to maintain the safety and integrity of the Company's pipeline system. (Ex. 19, 41:1-14, 42:25–43:8). In fact, the $0.69 per month residential SSIR Charge in Exhibit 92 already is 40% above the current ISR bill cap of $0.50 per month. (Tr. 62:16-21). The Company, therefore, has a better opportunity under the SSIR Tariff to extend the time between general rate cases through concurrent cost recovery of SSIR Projects. (Tr. 27:23–28:3). The SSIR Tariff also focuses on the importance of regulatory transparency, which the bill cap and revenue cap under the ISR cost recovery process do nothing to advance. (Tr. 30:4-15).

Even though the SSIR Tariff does not contain bill or revenue caps, the SSIR Tariff does contain a provision requiring that a general rate case must be conducted "at least every sixty months," as the Public Advocate recommended. (Ex. 23, Section 1.6). That additional requirement, along with the provision by which SSIR Charges must be reset in general rate cases (Ex. 23, Section 1.5), will safeguard against the Company generating a disproportionate amount of its revenue through the SSIR Tariff compared with its base rates.

iii. The SSIR Tariff Fills a Shortcoming of the ISR by Reflecting that Both Capital Costs and O&M Expenses Are Eligible System Safety and Integrity Costs

The SSIR Tariff addresses the third core shortcoming of the ISR cost recovery process by including O&M expenses as a type of Eligible System Safety and Integrity Cost. Not all System Safety and Integrity Projects qualify to be capital projects. Accounting standards, including SourceGas LLC's Capitalization Policy (Ex. 22), dictate that some types of Projects must be recorded on the Company's books as O&M expenses. Two examples of O&M SSIR Projects are the hydrostatic testing being conducted on the McCook Lateral to verify the maximum allowable operating pressure of that pipeline (Ex. 41, Section II.I.4; Tr. 33:1-2) and the repair of a pipeline anomaly such as a dent that does not extend the life of the pipeline but is essential to the continued safety and integrity of the pipeline (Ex. 16, 17:21-23; Tr. 33:10-16). Recovery under the proposed SSIR Tariff should not be determined by accounting standards, but rather on whether the activity generating the cost qualifies as a SSIR Project. (Tr. 31:12-

22). Moreover, including O&M expenses as a type of Eligible System Safety and Integrity Cost gives the Company the flexibility to decide whether to replace a pipeline (a capital cost) or to test or repair a pipeline (an O&M expense), and to balance operational needs with the ratepayer cost of each option. (Tr. 33:3-9). At the same time, the O&M expense associated with fixing a leak, for example, would not qualify for recovery under the SSIR Tariff. (Tr. 119:21-23). Notably, the Public Utilities Commission of the State of Colorado ("CPUC") recently approved a System Safety and Integrity Rider for the Company's affiliate, Rocky Mountain Natural Gas LLC (Tr. 42:15-23), that authorizes the recovery of O&M expenses for SSIR Projects (Ex. 19, 36:10-13; CPUC Decision No. R14-0114, mailed January 30, 2014).

Furthermore, the Company will not continue to recover O&M-related Project costs past the year in which the O&M expenses are incurred. (Tr. 33:17–34:3). For instance, if the Company has an SSIR-related O&M project in 2015, it will include that Project in the determination of the 2015 revenue requirement. When the Company makes its 2016 filing, which will include the new 2016 SSIR Projects and their 2016 revenue requirement as well as the 2016 revenue requirement of the 2015 Projects, the 2015 O&M Project will be excluded from that calculation. The 2015 O&M Project will be excluded from that calculation because the Company presumably will have already collected the dollars associated with that Project in 2015 and will have no need for additional collection in 2016. This process ensures that ratepayers will not continually pay for a particular O&M Project in years when there is no O&M expense for that particular Project. (Ex. 19, 36:23–37:9).

iv. <u>The SSIR Tariff Contains a Proactive and Transparent Regulatory Process</u>

The fourth core shortcoming of the ISR cost recovery process, in particular its reactive "report card" process (Tr. 122:23-24), is addressed through the proactive and transparent process of the SSIR Tariff. The annual November 1 filing will describe in detail each of the SSIR Projects that the Company has identified to be performed in the following calendar year. Through the annual November 1 filing, the SSIR Tariff provides more information – and sooner

– to regulatory stakeholders and interested parties than they get through a utility's ISR filing. After the November 1 filing, the Public Advocate, Commission Staff and interested parties can meet with the Company to obtain further information on the Company's Projects for the upcoming calendar year and for the Company to answer any questions about those Projects. (Tr. 28:10-24). Thus, the SSIR Tariff provides the Commission, the Public Advocate and interested parties with a look forward to the Company's efforts to ensure the safety and integrity of the Company's pipeline system. (Ex. 19, 34:15–35:4).

4. The SSIR Tariff Includes Provisions Recommended by the Public Advocate

The Public Advocate recommended several changes to the SSIR Tariff (Ex. 77, pp. 43-49), and the Company revised the SSIR Tariff to include the majority of those changes (Ex. 19, 40:1-12; Ex. 23; Tr. 29:7–30:4, 30:16-24). The Company accepted the Public Advocate's recommendation to incorporate into the SSIR Tariff an ISR-type review process, including a Commission approval process. (Tr. 61:8-11; *See* Ex. 23, Section 1.2B). SourceGas Distribution addressed Public Advocate concerns about the reconciliation process" by adding to the SSIR Tariff a symmetrical interest-bearing component of the true-up amount. (*See* Ex. 23, Sections 1.3A and 1.3D). The Company also adopted the Public Advocate's recommendation to insert into the SSIR Tariff an ISR-type requirement that "general rate cases should be mandated at least every sixty months." (Ex. 19, 40:8-10; *See* Ex. 23, Section 1.6).

5. Customers Will Benefit if the Commission Approves the Relief Requested by the Company in this Proceeding and in Docket Nos. NG-0072.1 and NG-0079

SourceGas Distribution submitted its Jurisdictional revenue deficiency analysis (Ex. 18) to demonstrate the importance of the Commission approving the SSIR Tariff and Charges and the Company's requested relief in Docket Nos. NG-0072.1 and NG-0079. The merits of the Company's SSIR application in Docket No. NG-0078, which are addressed in this Post-Hearing Brief, stand on their own.

The Company's analysis shows a revenue deficiency for calendar year 2014 from its Nebraska Jurisdictional customers of approximately $4.5 million. (Ex. 18). The analysis conservatively applies the Company's currently authorized 9.60% return on equity, current cost of debt and current capital structure (which lower the Commission-approved weighted cost of capital to 7.30% from 7.67%) and the types of known and measurable changes that have been accepted by the Commission. (Tr. 35:19–36:10). The revenue requirement of the 2014 SSIR Projects properly is one of those types of known and measurable costs. (Tr. 75:19–78:3). Also, the inclusion of 2015 SSIR Projects in the analysis has less than a $140,000 impact on the revenue deficiency calculation. (Tr. 80:9–81:24).

The analysis does not reflect the very substantial cost of conducting a general rate case. In its last general rate case (Docket No. NG-0067), the Company spent $800,450 on rate case expense (amortized in base rates over three years at $266,817 per year) and charged its Jurisdictional customers an additional $560,000 of expense for the charges of the Public Advocate and his consultants and the Commission's consultants. (Ex. 19, 11:7-13). In contrast, at the time of the rebuttal filing in this docket the Commission had assessed only a total of $86,350.76 (currently, approximately $129,000) for the Company to collect from its customers through the State Regulatory Assessment Charge for Docket Nos. NG-0072.1, NG-0078 and NG-0079, combined. (Ex. 19, 11:21-25).

The revenue deficiency analysis shows that if the Commission approves the SSIR Tariff and SSIR Charges and the Company's application in Docket No. NG-0079 (the Commission already has issued its order of approval in Docket No. NG-0072.1), the Company still would have a Jurisdictional revenue deficiency of approximately $0.94 million at the currently authorized 9.60% return on equity, prior to reflecting rate case expense. (Ex. 18).

The Public Advocate reviewed the Company's Jurisdictional revenue deficiency analysis (Ex. 77, 11:16-18; *see generally* Ex. 77, pp. 10-28 and Ex. 83), which the Company rebutted through Exhibit 19 (pp. 7-25) and Exhibit 42 (pp. 3-4). The Public Advocate made no claim based on Public Advocate witness Ms. Donna Mullinax's review of all of the data generated in this case that the Company would exceed its approved revenue requirement in Nebraska. (Tr. 272:7–276:25). Nothing in the Public Advocate's review negated any of the fundamental findings that the Company has a Jurisdictional revenue deficiency compared with its current revenue requirement, that the Commission's approval of the SSIR Tariff and Charges and the Company's requested relief in Docket Nos. NG-0072.1 and NG-0079 will not cause the Company to exceed its authorized rate of return, and that the Commission's approval in the three proceedings will reduce the Company's revenue deficiency to a level that will allow the Company to avoid its planned general rate case for several years. (Ex. 19, 8:3-21; Tr. 46:4-5).

Although Ms. Mullinax asserted that SourceGas Distribution "overstated" its Jurisdictional revenue deficiency through the application of pro forma known and measurable changes (Ex. 77, 4:5-7), the Public Advocate did not – and could not – question the level of the Company's actual revenue deficiency based on actual data through August 2014. Exhibit 62[4] shows on the page labeled "Third Supplemental Attachment Staff 1-1B" that for the 12-months ended August 31, 2014, the Company's actual return on rate base is 5.22% (versus the 7.67% that the Commission approved in Docket No. NG-0067) and the Company's actual return on equity is 5.71% (versus the 9.60% that the Commission approved in Docket No. NG-0067). At the hearing, Mr. Hammer referenced Line 9, Columns [I] and [J], on the same page of Exhibit 62 and provided the following testimony:

> "And if you look at the attachment 1-1B to that exhibit, what the company has shown is - - shows is on an actual basis, with no adjustments, no pro formas, none of the stuff that you've heard earlier today in the earnings analysis, that we are actually deficient by $3 million.
>
> And that $3 million is an increase of about 2 - - a little over [$]250,000 from July [2014]. So I think … taking the argument about the pro formas and about the projections out of the equation, I think you can see with actual data as presented in that response to staff, that historically we are in an underearnings position."

4 The transcript incorrectly references "Exhibit 50." (Tr. 302:6-8).

(Tr. 301:8-22).

In response to a question from Commission Staff, the Company agreed to provide an annual "surveillance filing" similar to Exhibit 62 around May 1 of each year until its next general rate case to demonstrate that it is not in an overearnings position. (Tr. 120:7–121:3, 301:23–302:3).

Commissioner Landis asked Mr. Hammer about the timing of the next general rate case. Mr. Hammer responded that based upon current information and factors within the Company's control, the Company projects that the filing of its next general rate case could be delayed several years if the Commission approves the SSIR Tariff (Ex. 23) and SSIR Charges (Ex. 92), and the relief requested by the Company in Docket Nos. NG-0072.1 and NG-0079. Otherwise, the Company projects that it would file its next general rate case in about the next year. (Tr. 45:23–46:5). Commission approval in the three proceedings, therefore, could delay the next general rate case by a few years. Mr. Hammer aptly summarized the importance of the relief requested in Docket No. NG-0079 to the Company's financial position:

> "So the problem - - so what - - what the depreciation is doing is it's lowering our depreciation expense on our books by I think about [$]1.6 to [$]1.8 million that was stipulated.
>
> Without that then, ... our cost of service in Nebraska is less than $40 million. So that depreciation represents ... close to 5 percent of our revenue requirement.
>
> So anytime you start running a deficiency between 5 and 10 percent of your revenue requirement, then it's ... incumbent upon us as a utility to start looking at rate relief to cover that deficit. For a utility our size with only a $40 million revenue requirement, [$]1.6 to [$]1.8 million is a significant shortfall."
>
> (Tr. 47:13–48:5).

As Mr. Hammer testified, consumers benefit in two ways relative to a general rate case if the Commission approves the SSIR Tariff and Charges and the Company's requested relief in Docket No. NG-0079.

> "One is they're not paying for the cost of that general rate case as you stated correctly.

> The other piece of it is ... based on our analysis and even with these, ... the full vetting aside, we feel like we put forth a very conservative earnings analysis that didn't ... push our ROE up to ... something that ... the commission may decide to give us a higher ROE or something like that. So the other thing the consumer is saving is the very real possibility that a general rate case would result in increased distribution rates.
>
> So ... approving these two dockets is leaving base rates at their existing level, ... having a general rate case would have the costs involved plus, I think, the very real possibility that base rates would end up being higher at the end of that general rate case."
>
> (Tr. 49:23–50:18).

For these reasons, customers will benefit if the Commission approves the relief requested by the Company in this proceeding and in Docket Nos. NG-0072.1 and NG-0079.

6. <u>The Public Advocate Exaggerates the Impact of Rescheduled 2014 SSIR Projects</u>

As described by Company witness Jason Pickett, adverse weather conditions have made 2014 a challenging year for the Company to start and complete capital projects in Nebraska. (Ex. 42, 3:23–4:14; Tr. 137:11–138:9). Exhibits 91 and 92 reflect the impact of the adverse weather conditions on the status of the 2014 SSIR Projects.[5] Some in-service dates have moved within 2014, and eight of 44 SSIR Projects are being moved into 2015. (Tr. 137:6-9). Those eight SSIR Projects represent just $1.7 million of the approximately $11.6 million capital cost included in the Company's Application in this proceeding. (Tr. 137:9-10).

During the hearing, Mr. Hammer explained that the $1.7 million capital cost translates into a 2014 revenue requirement for which customers would have paid in total approximately $90,000 (about $1.00 per customer) more for 2014 SSIR Projects than the SSIR Projects to be completed in 2014. (Tr. 89:15-20, 90:15-22, 91:13-92:2). Further, the November 1, 2014 Annual Application would actualize the impact of the revised in-service dates of 2014 SSIR Projects "so that the change ... doesn't continue to cascade through all future filings" (Tr. 91:5-12), and the reconciliation process would make customers whole – including interest for the time value of money – for the $90,000 paid in 2014 for 2014 SSIR Projects not completed until 2015.

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[5] Exhibit 92 also reflects the impact of the depreciation rates set forth in Exhibit 90.

(Tr. 89:5-8, 92:3-13, 95:12–96:12). Additionally, just like it treats interim rates in a general rate case, the Company would have to recognize the $90,000 as an SSIR-specific future refund obligation on its balance sheet that would not go to the Company's "bottom line" as revenue. (Tr. 92:14–94:2, 95:3-11, 98:3-4).

Finally, over the course of this proceeding Company personnel responsible for implementing SSIR Projects have learned the importance of the timing of in-service dates in the development of the SSIR Charges. (Tr. 148:17-19, 162:10–163:18). As a result, the Company plans to develop in-service dates "on a more conservative basis," and "would anticipate in-service dates to move further back into the year versus early to midyear." (Tr. 163:19-164:1). At the same time, the Company will look for opportunities to accelerate the implementation of SSIR Projects. (Tr. 160:17-24).

7. Public Advocate Witness Dunkel's Testimony in this Proceeding Is Irrelevant and Should Be Disregarded

Public Advocate witness Dunkel filed 22 pages of testimony in this proceeding about a hypothetical "surplus" amount in the Company's accumulated depreciation reserve without ever explaining its relevance to, or making a recommendation about, the SSIR Tariff or the associated SSIR Charge. (Ex. 19, 44:2-9). Mr. Dunkel summarized his testimony in this proceeding as follows: "The other docket is [NG-00]78. This I do not really have a specific recommendation. [Ms.] Donna [Mullinax] is taking care of that." (Tr. 232:7-9).

The Company's counsel objected at the hearing to Mr. Dunkel's "summary" of his testimony in this proceeding (Tr. 233:12–234:3, 235:21–236:11, 236:18-23, 237:15-25), stating that "when a witness has no specific recommendation with regard to a case, then his testimony on that is irrelevant." (Tr. 273:15-18). The Hearing Officer ruled as follows: "I appreciate your objections here. I would say if you [the Public Advocate] have a witness that's going to cover [Docket No. NG-00]78, then we – we'll hear from that person following this witness so ... if you could narrow your comments down to specifically to depreciation, then that's the route you should go." (Tr. 238:6-15).

Mr. Dunkel's testimony in this proceeding engages in hindsight, which is prohibited in ratemaking, and seems to collaterally attack the base rates, including depreciation rates, established by the Commission as being just and reasonable in the last rate case (Docket No. NG-0067). (Ex. 19, 6:15-18, 44:14-20; Tr. 82:15–83:10). His testimony also absurdly suggests that the Company should achieve the appropriate reserve level through the replacement of pipe and subsequent retirement of existing facilities rather than through seeking a Commission order authorizing the Company to make an adjustment to its depreciation expense. (Ex. 19, 44:23–45:12, 46:1-21). As Mr. Hammer explained at the hearing:

> "[Y]ou don't replace your pipeline because of your depreciation rates. You replace your pipeline because of the physical characteristics and the physical condition that tells you to do so.
>
> If one were to simply go replace their pipe based on their depreciation rates, then in the last 30 years, we would have a brand new system in the State of Nebraska with a huge price tag to our customers for that brand new system."
>
> (Tr. 83:15–84:1).

Further, any such "surplus" in the Company's accumulated depreciation reserve, which does not exist on the Company's books (Tr. 250:10-19), would reduce rate base and thereby reduce the return on rate base component that is included in the calculation of customer rates. (Ex. 19, 45:13-25). Finally, Mr. Dunkel's "analogy" misrepresents the Company's proposals and the rate making process. (Ex. 19, 46:22–47:22).

8. Customer Bill Messaging

The Company proposes that the SSIR Charge be called the "Safety and Integrity Charge" on customers' bills and appear as a separate line item. (Tr. 34:15-18). Mr. Hammer stated at the hearing that the Company, "[i]n very short order, ... would be able to produce a bill with proposed language and provide it to the [C]ommission and to the Public Advocate and let you look at what we're planning on telling [customers], and ... welcome any suggestions or changes that you may have." (Tr. 40:16-22). The Attachment to this Post-Hearing Brief is a copy of the test bill showing the Safety and Integrity Charge. The test bill contains the following notice (emphasis in original):

> "**PLEASE NOTE: This invoice reflects a new charge, Safety and Integrity Charge, which became effective November 1, 2014, to recover SourceGas Utility's cost related to eligible system safety and integrity projects. This charge is described more fully below. You may see a prorated amount for this charge on your bill.**"

The test bill also contains the following description of the Safety and Integrity Charge (emphasis in original):

> "**Safety and Integrity Charge** – This charge is designed to recover SourceGas Utility's cost related to eligible projects in compliance with certain federal regulations and municipal public works projects and to promote the safety and integrity of SourceGas Utility's natural gas pipeline system. This is not a government imposed charge. Eligible projects, filing requirements, and the development of the charge are defined in SourceGas Utility's Tariff, available at http://www.sourcegas.com/ about/tariffs/. The safety and integrity projects included in this charge are not already included in the Customer Charge, Pipeline Replacement Charge, or the Distribution Charge on your bill. This charge is billed to each customer as a flat fee per month and does not vary with gas usage. Changes in the Safety and Integrity Charge will occur from time to time and are subject to the approval of the Nebraska Public Service Commission."

The description of the Pipeline Replacement Charge on the test bill has been modified to state that the projects included in the Pipeline Replacement Charge are not already included in the Customer Charge, "the Safety and Integrity Charge," or the Distribution Charge on the customer's bill.

III. CONCLUSION

For the foregoing reasons, the Company respectfully requests that the Commission, pursuant to its power, authority, and jurisdiction granted to it by Section 66-1808 of the Act, issue an order authorizing the Company to put into effect as of November 1, 2014, the SSIR Tariff set forth in Exhibit JSH-6 to the Prefiled Rebuttal Testimony of Jerrad S. Hammer (Ex. 23) and the SSIR Charges set forth in Mr. Hammer's Exhibit JSH-8 (Ex. 92) that reflect Commission approval of the depreciation rates set forth in Exhibit 90 and the associated relief requested by the Company in Docket No. NG-0079.

Dated: October 15, 2014

Respectfully Submitted,

SOURCEGAS DISTRIBUTION LLC, Applicant.

BY: ______________________

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Attorneys for SourceGas Distribution LLC

1212849.2

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing document was delivered via electronic mail to the following on this 15th day of October, 2014:

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SGQ/500

1-800-563-0012
www.sourcegas.com

Account Number: [redacted]2952
Customer Number: [redacted]8179
[redacted]
COZAD NE 69130

Page:	1
Invoice Number:	[redacted]6469
Billing Date:	11/30/2014
Mail Date:	12/01/2014
Service Period:	11/01/2014 - 11/30/2014
Service Days:	30

Previous Balance	$470.56	
Payment(s)	$0.00	
**Balance Forward – PAYABLE IMMEDIATELY		$470.56
Current Amount/Charges - DUE 12/15/2014		$179.41
Total Amount Due		**$649.97**

Security Deposit on Record $0.00

- **If payment for Current Amount/Charges is not received by 12/25/2014, a late payment charge of $4.19 will be assessed and appear on a subsequent bill. Current Amount/Charges are due on 12/15/2014.**

Online Customer Care
- Access to your Account is now available via the Internet and Phone. On the Internet, you can change account information, view your consumption history, sign up for recurring electronic payment or electronic-bill (paperless bill) and also view your statement. Go to **www.sourcegas.com** to sign-up today.

Important Information
- For your convenience you can pay your bill electronically using a credit card or by automatic withdrawal from your bank account. You can learn more by calling our Customer Care Center or by logging onto www.sourcegas.com.
- **If you suspect a gas leak, don't wait. Leave the area and from a safe distance call our emergency service number at 1-800-563-0012. Choose your language and press option 1.**

Correspondence
- **If you have questions concerning your bill statement, service or delayed payment agreement please call our Customer Care Center at 1-800-563-0012.**
- Please send all correspondence and legal notices separately to SourceGas Distribution LLC, PO Box 13288, Fayetteville, AR 72703-1002.
- To update your mailing address visit www.sourcegas.com and log into your account, or call us at 1-800-563-0012.

Disclosure
- For information on product safety and recalls on equipment or products you have in your home, contact the Consumer Product Safety Commission toll free at 1-800-638-2772 or visit www.cpsc.gov.htm
- Effective June 1, 2011, when you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. When we use information from your check to make an electronic fund transfer, funds may be withdrawn from your account as soon as the same day we receive your payment, and you will not receive your check back from your financial institution.
- Information regarding rates and tariffs are available on our web-site sourcegas.com. If you have already contacted the company and require further assistance related to a service or billing dispute, you may refer the matter to the Nebraska Public Service Commission at 1-800-526-0017 or 1200 N Street, Suite 300, Lincoln, NE 68508.

Please do not staple or fold

Please return this portion with your payment and write your account number on the check.

Loan Overpayment	Account Number	Due Date	Total Amount Due
Check here and indicate amount of overpayment on back ☐	[redacted]2952	PAST DUE - See above for due dates	$649.97

Total Amount Enclosed:_______

%%KEYLINE
[redacted]
COZAD NE 69130-2422

SourceGas Distribution LLC
PO Box 660474
Dallas TX 75266-0474

[redacted]2952 1017 000064997

SGQ/500

Account Number: [redacted]2952
Customer Number: [redacted]8179
[redacted]
COZAD NE 69130

Page: 2
Invoice Number: [redacted]6469
Billing Date: 11/30/2014
Mail Date: 12/01/2014
Service Period: 11/01/2014 - 11/30/2014
Service Days: 30

Read Type	Meter Number	Rate Schedule	Days	Curr Reading	Curr Reading Date	Prev Reading	Prev Reading Date	Meter Usage	Usage Factor	Billed Usage
ESTIMATE	[redacted]	R-CGS	30	494	11/30/2014	309	10/31/2014	185	0.989	183
Gas Consumed										**183**

SourceGas
Energy Services

Customer Charge		15.23	
Pipeline Replacement Charge		0.84	
State Regulatory Assessment		0.25	
Safety and Integrity Charge		0.69	
SGES Commodity Charge	183 Therms @ 0.654000	119.68	
Distribution Charge	20 Therms @ 0.479600	9.59	
Distribution Charge	163 Therms @ 0.145900	23.78	
State 5.5%		9.35	
Total Consumption Charges			$179.41
Total Current Charges			**$179.41**

• **PLEASE NOTE: This invoice reflects a new charge, Safety and Integrity Charge, which became effective November 1, 2014, to recover SourceGas Utility's cost related to eligible system safety and integrity projects. This charge is described more fully below. You may see a prorated amount for this charge on your bill.**

• Billed Usage (Gas Consumption) - Billed usage is in therms instead of cubic feet of gas because the amount of energy in natural gas varies. It reflects the actual energy content of the gas consumed by the customer during the billing period.

• Commodity Charge - This charge recovers the cost of the natural gas consumed at the price charged by your selected Choice Gas supplier. The cost of natural gas includes any applicable upstream costs such as gathering, processing and interstate transportation.

• Customer Charge - This charge is designed to recover some of SourceGas Utility's fixed costs of standing ready to provide service regardless of how much natural gas a customer consumes. Fixed costs include items such as meter reading, billing, customer service, and customer specific facilities in place ready to serve. The customer charge is billed to each customer as a flat fee per month and does not vary with gas usage. Changes in the customer charge may occur from time to time and are subject to the approval of the Nebraska Public Service Commission.

• Distribution Charge - This charge is designed to recover SourceGas Utility's cost to deliver your gas supply through the local distribution pipeline system. This charge includes cost items such as facilities, operation and maintenance, and safety services. Each customer pays the same distribution tariff rate applicable to their respective class of service. The distribution charge for each customer is based on the amount of gas consumed multiplied by the distribution rate. Changes in distribution rates may occur from time to time and are subject to the approval of the Nebraska Public Service Commission.

• Taxes, Franchise Fees and other Assessments - These charges relate to State and Local sales taxes, municipal franchise fees and state regulatory assessments applied to each customer's monthly billing. SourceGas administers the collection of these taxes, fees and other assessments and remits all monies collected to the applicable State and Local governments or State regulatory agency.

• Usage Factor - Adjusts the metered usage for pressure and heat content (BTU) of the gas to determine the billed usage.

• Pipeline Replacement Charge - This charge is designed to recover SourceGas Utility's cost related to eligible pipeline infrastructure replacement projects. This is not a government imposed charge. Eligible projects, filing requirements, and the development of the charge are defined in the State Natural Gas Regulation Act. The pipeline replacement projects included in this charge are not already included in the Customer Charge, Safety and Integrity Charge, or the Distribution Charge on your bill. This charge is billed to each customer as a flat fee per month and does not vary with gas usage. Changes in the Pipeline Replacement Charge may occur from time to time and are subject to the approval of the Nebraska Public Service Commission.

• Safety and Integrity Charge - This charge is designed to recover SourceGas Utility's cost related to eligible projects in compliance with certain federal regulations and municipal public works projects and to promote the safety and integrity of SourceGas Utility's natural gas pipeline system. This is not a government imposed charge. Eligible projects, filing requirements, and the development of the charge are defined in SourceGas Utility's Tariff, available at http://www.sourcegas.com/about/tariffs/. The safety and integrity projects included in this charge are not already included in the Customer Charge, Pipeline Replacement Charge, or the Distribution Charge on your bill. This charge is billed to each customer as a flat fee per month and does not vary with gas usage. Changes in the Safety and Integrity Charge will occur from time to time and are subject to the approval of the Nebraska Public Service Commission.